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# **Thame Town Council**

*Internal Audit Report 2016-17: Interim update*

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*For Auditing Solutions Ltd*

## **Background**

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service to Thame Town Council since 2005.

This report sets out the work undertaken in relation to the 2016-17 financial year with our visits on 28<sup>th</sup> September 2016 and 18<sup>th</sup> January 2017 together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review for the year to date, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined to date, the Council continues to have effective systems in place to help ensure that transactions are free from material misstatement and will be reported accurately in the Annual Return and detailed Statement of Accounts for the financial year.

We ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

We are also pleased to record that Council members and officers continue to operate a sound, pro-active approach to risk management and corporate governance issues, together with the development and management of effective internal controls and procedural documentation.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Agreed the opening Omega trial balance detail with that in the final Statement of Accounts and certified Annual Return for 2015-16;
- Verified that the ledger remains “in balance” at the present date;
- Ensured that the cost centre and nominal ledger coding structure remains appropriate for purpose;
- Checked detail of transactions in the current account cashbook, agreeing three months’ transactions (April, August & November 2016) to the relevant Lloyds Bank account statements;
- Checked and agreed the daily “sweep” transfers to and from the Current account to maintain the Lloyds Bank Business Extra account balance at circa £2,500 for the same nine months;
- Checked and agreed detail of receipt and payment transactions in the Barclays account cashbook for the year to 30<sup>th</sup> November 2016; and
- Checked and agreed detail on bank reconciliations prepared using the Omega accounting software, as at 30<sup>th</sup> April, 31<sup>st</sup> August and 30<sup>th</sup> November 2016 for the Lloyds and Barclays accounts.

### Conclusions

*We are pleased to report that no issues have been identified in this area of our review process at present: we shall undertake further work in this area at future visits.*

## Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been taken nor are such being considering currently. We are pleased to note that the Standing Orders and Financial Regulations were re-adopted by the Council at the May 2016 meeting.

- We have continued our review of minutes of the Council and it’s Standing Committees for the year to date against the above criteria with no issues arising at present.
- We note the continued development and adoption of various governance policies, which we consider further enhance the Council’s governance controls; and
- We also note that the Corporate Governance and Financial Management Procedure were adopted by Policy and Resources Committee at their April 2016 meeting.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area currently, warranting further comment. We shall undertake further work at future visits.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have examined the procedures in place for the authorisation and release of funds in this respect, ensuring that appropriate controls are in place and that members are undertaking appropriate reviews and checks on payments in order to ensure the effective discharge of their fiduciary responsibilities.

We have continued our sample of payments for examination to 30<sup>th</sup> November 2016 in order to ensure compliance with the above criteria and the Council's approved working practices: our test sample includes 27 individual payments in excess of £4,000 also including every 40<sup>th</sup> payment recorded in the cashbook in order to provide a more random sample and totals £214,786 equating to 48% of non-pay related payments to the above date.

We have also reviewed the management controls and procedures in respect of the authorisation and the issuing of specific grants to various local events and organisations.

We have also examined the quarters VAT reclaims to September 2016 now submitted on line as required by HMRC.

### *Conclusions*

*We are pleased to record that no issues have been identified warranting formal comment or recommendation in this area. We shall undertake further work at future visits.*

## Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. To meet that objective, we have:-

- Noted that the Council reviewed its Internal Controls and Financial Risk assessments which were approved by Full Council in March 2016 and will again be reviewed by the financial year end;
- Also noted that a full review of the Health & Safety and Human Resources requirements was undertaken by Ellis Whittam with the contract approved by Full Council last year and renewed for a three-year term; and
- Examined the Council's current insurance schedule for the year to May 2017 with cover again provided by Aviva together with a separate policy for motor vehicles. We are pleased to record that cover in all areas appears appropriate for the Council's current requirements.

### *Conclusions*

*No issues have arisen in this area warranting formal comment or recommendation.*

## Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We are pleased to note that members continue to receive regular budget monitoring reports with over/under-spends and the level of earmarked reserves the subject of regular review.

### *Conclusions*

*We have been advised that the Council has considered its budget and precept requirements for 2017-18 at its 17th January Full Council meeting however this has yet to be formally approved: Consequently, we shall review this area further at our next visit, also examining the year's budget outturn and following up any significant variances and obtaining appropriate explanations. We shall also consider the appropriateness of retained reserves to meet the Council's ongoing revenue spending requirements and any development aspirations.*

## Review of Income

In this area of our review process, we aim to ensure that all income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a

reasonable time scale; also that it is banked promptly in accordance with the Council's Financial Regulations.

We have undertaken a review of the Chipside parking procedures in relation to the recording of excess charge car parking fees examining the reports in respect of those tickets issued from April to December 2016 and the processes for the recovery of the fines.

Similarly, we have examined the processes and procedures in respect of the recovery /collection of income from the Christmas Market to ensure that the correct fees are collected in relation to the number of stall holders present

We have also reviewed the processes and detailed procedures in relation to the Cardnet Machine and consider the operation of this to be satisfactory and also noted the receipt of funds in our review of the cash book and reconciliation of the bank accounts.

We have reviewed the Sales Ledger, as it stands currently, and are pleased to report that no significant or long-standing debts are in existence.

We also note that members have considered fees and charges for the meeting rooms and SRRG football pitch hire in accordance with the requirements of the Financial Regulations and approved that they remain the same for this current financial year.

### ***Conclusions***

***We are pleased to record that no issues arise in this area to date we will undertake a further review of income streams in accordance with the agreed strategic plan at future visits.***

## **Petty Cash Account**

Whilst the amount of spending involved by way of petty cash is very limited, we are required, as part of the annual Internal Audit Reporting process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. Consequently, we aim to ensure that petty cash payments are appropriately supported by a trade invoice or relevant till receipt; that, where applicable, VAT has been identified for recovery and appropriate entries are made in the Omega expenditure codes.

The Council operates an "imprest" account with an approved maximum float of £300, payment detail being summarised in a monthly spreadsheet analysing expenditure accordingly to the relevant nominal codes. We have examined payments in September 2016 and are pleased to report that all were supported appropriately, that VAT had been identified accordingly for recovery from HMRC and that monthly reimbursements made from the Barclays current account have been accounted for appropriately.

At our first visit we checked the physical cash held, agreeing detail to the supporting trade invoices and till receipts for expenses incurred subsequent to the last "top-up" to the imprest holding of £300; we have also checked and agreed the petty cash and cash float held in the reception till.

We noted at a previous audit that Council had opened a debit card facility with the Clerk being sole operator of this card. We reviewed the payment checking procedures and consider them satisfactory; subsequently at the first interim visit we reviewed the payments from April to August 2016 including the purchase orders and relevant supporting invoices.

### ***Conclusions***

*No matters arise warranting formal comment or recommendation.*

## **Review of Salaries**

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as further revised from 1<sup>st</sup> April 2015 in relation to employee percentage bandings.

The Council continues to use the services of an external payroll bureau (Moorepay Limited) to service its payroll requirements: in order to meet the above objectives, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting that all employees are on formal SCP scales;
- Agreed the gross salaries payable to individuals in September 2016 by reference to the Council's approved pay scales;
- Checked and agreed detail of all enhanced payments processed with the September salaries to supporting and appropriately certified time sheets / travel expense claims;
- Ensured that Tax and NIC deductions and employer's contributions have been calculated appropriately and been paid over to HMRC in an accurate and timely manner; and
- Ensured that the appropriate employee and employer contributions to the pension scheme have been determined.

### ***Conclusions***

*We are pleased to report that no issues have been identified in this area of our review process.*

## **Investments and Loans**

The Council has a range of investments managed by an external fund manager (Rathbones Investment Management). We previously noted re-adoption of the Annual Investment Strategy by the Policy and Resources Committee in March 2016 with members agreeing that no changes in content were necessary at that time.

We have noted the existence of three investments on Term deposits with Lloyds Bank plc for a total of £350,000.

The Council has three outstanding PWLB loans currently: we have verified detail of the two half-yearly repayment instalments for 2016-17 to the PWLB repayment demand.

We also noted that the Council had agreed and provided a third-party loan, which was repayable over 12 years, secured by a legal charge over land and/or buildings. The 12-year loan has now been registered by the Council's solicitors and it has been drawn down with capital repayments, currently excluding interest, being made on a monthly basis.

### ***Conclusions***

***No matters arise in this area of our review for the year to date. We shall undertake further work at future visits.***